

Central Intelligence Agency



Washington, D.C. 20505

## DIRECTORATE OF INTELLIGENCE

23 January 1984

The Philippines: Central Bank Brouhaha [redacted]

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Summary

We believe the appointment of Jose Fernandez as new governor of the Philippine Central Bank on 12 January is a positive step in restoring international confidence in Manila's financial management. Fernandez, an experienced banker with close ties to Prime Minister Virata, is well-known in international banking circles as a skilled administrator and a brilliant banker.

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Loss of Confidence

The replacement of former Central Bank Governor Jaime Laya comes on the heels of public revelations of irregularities in Central Bank accounts that resulted in the Philippines overstating foreign exchange reserves by as much as \$600 million. Discrepancies in Central Bank accounts have been a major sticking point in negotiations with the IMF and Manila's commercial creditors [redacted]

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Laya's reputation with commercial bankers was so damaged by the incident that he was excluded from debt rescheduling

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This memorandum was prepared by [redacted] Islands Branch, Southeast Asia Division, Office of East Asian Analysis of the Directorate of Intelligence. Information used in the preparation of this paper was available as of 20 January 1984. Comments are welcome and may be directed to the Chief of Southeast Asia Division, [redacted]

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negotiations after the accounting discrepancies were made known, [redacted] Many bankers do not blame Laya personally for the incident, but believe that his lack of banking experience prevented him from anticipating how subordinates in the Central Bank could manipulate the system. [redacted]

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### The New Governor

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Fernandez enjoys an excellent reputation in international financial circles as a brilliant banker. [redacted]

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[redacted] The bank Fernandez headed before his recent appointment, the Far East Bank and Trust Co., is one of the Philippines' largest and most profitable. With Chemical Bank and Mitsui each owning 12.5% of its shares, it is also one that enjoys a reputation among international bankers for sound financial practices. [redacted]

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Fernandez was the favorite choice of Manila's local banking community, which responded unfavorably to President Marcos's trial balloon to appoint Philippine National Bank (PNB) President Placido Mapa. We believe their opposition stemmed from the PNB's role in inflating the Central Bank's foreign exchange holdings. [redacted]

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Fernandez is a close friend of Prime Minister Virata, but has otherwise kept out of politics. He is not an intimate of President Marcos or any of the President's business associates, such as Eduardo Cojuangco. In fact, he has ties to the branch of the Cojuangco family to which opposition leader Mrs. Cory Aquino belongs. [redacted]

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### Managing the Central Bank

[redacted] Fernandez will put a housecleaning of personnel at the Central Bank high on his list of priorities. [redacted]

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[redacted] Fernandez will probably begin by replacing some last-minute, high-level officials Laya appointed on the day he left office. Because of [redacted]

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his solid reputation, we believe Fernandez will have no trouble attracting talented people to replace those he lets go. [REDACTED]

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If Fernandez succeeds at resolving discrepancies in Central Bank accounting practices and instituting sound financial management, it should help resolve the current impasse in IMF negotiations, and in turn facilitate completing arrangement of a total financial package for the Philippines from commercial banks and bilateral donors. Nevertheless, Fernandez has no more political clout than any of the other technocrats and less experience by far in manipulating the political machinery of government. He may find his policy options limited by President Marcos's political agenda [REDACTED]

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